Toronto Star Limited

Annual Report 1971

Main entrance to The Star's new home
at One Yonge Street.

The President's Report

Your Directors are pleased to submit the annual report of the Company for the fiscal year ended September 30, 1971.

It was a year of generally satisfactory progress that culminated in a dramatic change of the Toronto newspaper scene with the announcement that the Telegram would cease publication. This development faces The Star with new challenges in its objective of service to the community.

Net income before extraordinary item increased by $688,000 or 22.5% over 1970. Earnings per share before extraordinary item increased from $1.28 to $1.56. The net effect of the extraordinary item was an additional expense of 17¢ per share.

Quarterly dividends were paid at an annual rate of 22½¢ per share. An extra dividend of 7½¢ was declared in the last quarter, bringing total dividends for the year to 30¢ per share.

During 1971, Daily Star advertising revenue increased by $3,401,000, or 10 per cent. Gains were achieved in all major advertising categories except Classified Help Wanted. Circulation growth continued at a modest rate with revenue from this source up 9.7%, due principally to the increased price of the Saturday paper.

The combined result of subsidiary and affiliated company operations did not improve. Considerable expense was incurred to improve their products, enlarge their markets and meet competition.

As reported to shareholders on September 20, the Company purchased the Toronto Telegram subscription lists and leased the Telegram plant and production facilities for two years. The transaction, involving $12,000,000, provides the Company with the additional production facilities it requires until a sixth press can be installed in our One Yonge Street plant. Without the Telegram plant, The Star would not have been able to compete effectively for former Telegram subscribers.

Substantial circulation gains were achieved after the Telegram suspended publication on October 30. While Audit Bureau of Circulations' figures will not be available for some months, we expect paid circulation will be in the order of 500,000 Monday to Friday and in excess of 700,000 on Saturday for an overall increase in the six-day average of around 100,000.

The increase in circulation has been accompanied by a substantial increase in newsprint and production costs. To meet increased circulation and advertising requirements, it has been necessary to print The Star in three plants and add 370 permanent and temporary employees to our staff. Until advertising rates can be adjusted to reflect increased circulation and costs, earnings will be depressed.

Installation of new presses and production equipment at our new One Yonge Street plant is now nearing completion although somewhat slower than expected. Production tests are underway on three of the five new presses and associated equipment and the remaining two presses will be available for tests before the end of the year.
We expect to phase out production at 80 King Street West in the new year. The King Street plant, which has served the Company well for over 40 years, will then be demolished as required under our sale agreement with Olympia & York.

To mark the opening of our new building, The Star inaugurated a series of free lectures by some of the most brilliant and provocative personalities of our time. J. Kenneth Galbraith, the Canadian-born Harvard economist, opened the series, and was followed by J. Tuzo Wilson, the eminent Canadian geophysicist and China expert. This series, like the highly successful Star Forums, extends, in another form, one of the prime functions of the newspaper — to stimulate and encourage the

Board of Directors

Beland H. Honderich
President and Publisher

Burnett M. Thall
Vice-President

Murray Turner
Vice-President

Stewart A. Woods
Vice-President

Harry A. Hindmarsh
Secretary

George B. Kimpton
Treasurer

William J. Campbell

Ruth Atkinson Hindmarsh

Walter L. Gordon

Alex J. MacIntosh

Officers

William C. Rankin
Business Manager

Highlights

intelligent discussion of public affairs.

During 1971 a new plant was constructed on The Star's property near the junction of Highways 400 and 7 to house our rotogravure printing facilities, formerly located at One Yonge Street. The roto division, which does commercial printing and prints Star Week for The Star, is the first plant in Canada equipped to produce Rotogravure SpectaColor for daily newspapers.

As part of our continuing program to improve The Star, we increased the amount of space devoted to news and information and added bright new names and features. During the year, spending for editorial purposes increased 8.9%. A strong effort was made to expand our contacts with the public; all told, we attracted more than 250,000 letters from readers seeking advice, asking for services or offering opinions.

There was quality as well as quantity. Among journalistic honors won by Star staffers during the year were three National Newspaper Awards. All were repeat winners: Duncan Macpherson won his fifth for editorial cartooning, Anthony Westell won his third for a series on the Prime Minister's staff and Tom Hazlitt won his second for distinguished coverage of the FLQ crisis.

The coming year will be of major importance to the Company. Gains in circulation and advertising require that we expand production facilities at One Yonge Street even before the plant is ready for full production. A sixth press will require the expansion of our stereotype and mailing departments. Office space must also be enlarged to accommodate the increased workload.

The Company looks on the new plant as a means of improving our service to the community. In the new competitive environment, The Star has an increased responsibility to reflect accurately all facets of our growing, vibrant, vigorous city and to do so more fully than ever before. We have tried to make The Star a paper for the people. We shall now have to try harder.

The Directors wish to express their appreciation and thanks to the employees of the Company for their continued loyal service and their accomplishments during the year. The staff responded with enthusiasm and efficiency to the major challenges of adjusting to new equipment and a new building while continuing their normal day-to-day responsibilities.

On behalf of the Board

Beland Honderich

President

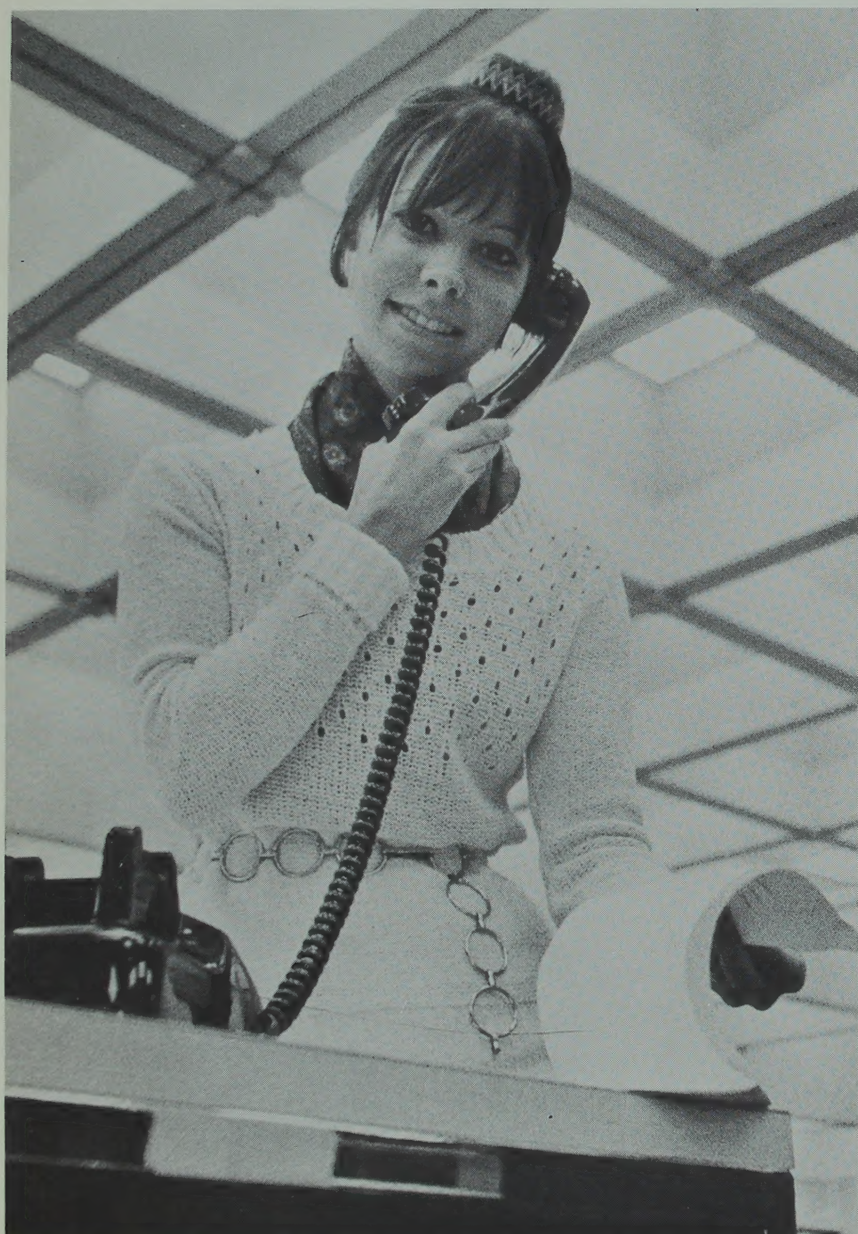
	1971	1970
Revenue	**$56,260,000**	$53,177,000
Net income before extraordinary item	**3,748,000**	3,060,000
Net income	**3,339,000**	3,060,000
Net income per share before extraordinary item	**1.56**	1.28
Net income per share	**1.39**	1.28
Dividends paid	**720,000**	720,000
Dividends per share	**.30**	.30
Equity per share	**10.48**	9.39

A Paper and its People

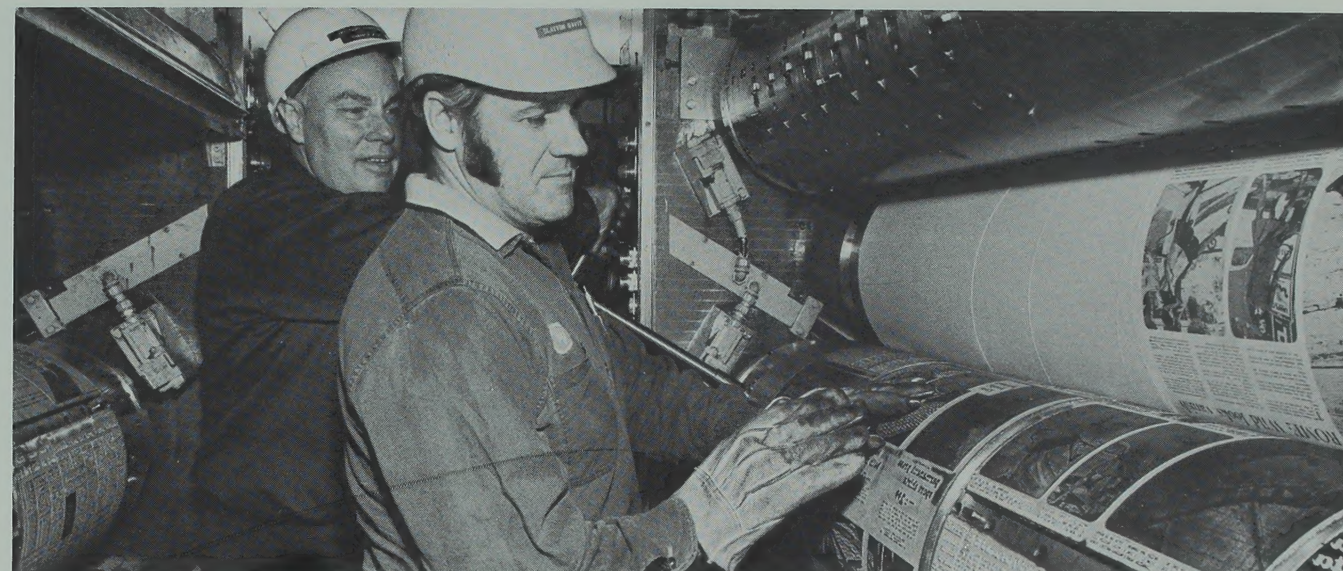
In The Star's new home at One Yonge Street, the most sophisticated equipment available is being installed to provide efficient modern services to readers and advertisers. Here are some of the people who make it work.

Star pressman Peter Ward examines a newly printed Star for ink coverage. Nine buttons, one for each column, provide instant adjustment to the ink flow.

A Paper and its People



Desiree Taylor handles calls in the spacious newsroom, nerve centre of The Star's world-wide news-gathering network.



Press superintendent Art Parry, pressman Clayton Davis lock a printing plate into one of five new Crabtree-Vickers presses, which have rated capacity of 70,000 newspapers per hour.

New cafeteria, operated by Stoodleigh Limited, seats about 300 and is open around the clock.

Unique custom-designed telephone control centre continuously indicates state of all calls in Classified Department.

Daily production manager C. M. (Scotty) Davey, a 53-year Star veteran, gives start-up signal for a new press.

Intricate conveyors are used to speed newspapers from mailing room to trucks.

Howard Dale inspects assembled copies of The Star as they stream off the press on their way to delivery department.

Toronto Star Limited Consolidated Balance Sheet

(Incorporated under the laws of Ontario) September 30, 1971 (with comparative figures at September 30, 1970)

Assets	**1971**	**1970**
Current:		
Cash		$ 578,000
Marketable securities at amortized cost (market value 1971—$4,368,000; 1970—$2,337,000)	**$ 4,438,000**	2,451,000
Receivables—trade	**7,019,000**	6,345,000
Employee share subscriptions receivable	**409,000**	
Receivable—contractor	**850,000**	637,000
Mortgage receivable, current portion	**8,600,000**	
Inventories, at cost	**1,267,000**	1,105,000
Prepaid income taxes	**1,601,000**	573,000
Other prepaids	**851,000**	676,000
Total current assets	**25,035,000**	12,365,000
Investments, at cost (note 1)	**18,658,000**	15,382,000
Property, plant and equipment (note 2):		
Property, plant and equipment, at cost	**14,725,000**	15,788,000
Less accumulated depreciation	**8,946,000**	10,007,000
	5,779,000	5,781,000
Equipment under construction	**14,571,000**	3,094,000
Total property, plant and equipment	**20,350,000**	8,875,000
Other, at cost:		
Subscription list and plant rental commitment (note 3)	**12,000,000**	
Deferred income tax charges		565,000
Goodwill	**365,000**	467,000
Total other assets	**12,365,000**	1,032,000
Total assets	**$76,408,000**	$37,654,000

On behalf of the Board: Beland Honderich Director ~~~ Director

Liabilities and Shareholders' Equity	1971	1970
Current:		
Bank indebtedness	$ 961,000	
Trade payables and accrued liabilities	4,876,000	$ 4,368,000
Other payables and accrued liabilities	12,096,000	1,317,000
Dividends payable	315,000	315,000
Taxes payable	914,000	525,000
Current portion of long term debt	159,000	550,000
Total current liabilities	19,321,000	7,075,000
Non-current:		
Deferred income taxes	2,250,000	
Debt (note 4)	28,953,000	6,449,000
Provision for relocation expenses		1,539,000
Total non-current liabilities	31,203,000	7,988,000
Minority interest in subsidiaries	69,000	67,000
Employees' shares subscribed	670,000	
Shareholders' equity:		
Capital (note 5) —		
Authorized:		
Issued: 2,400,130 shares without par value	1,502,000	1,500,000
Retained earnings	23,643,000	21,024,000
Total shareholders' equity	25,145,000	22,524,000
Total liabilities and shareholders' equity	$76,408,000	$37,654,000

(See accompanying notes to the financial statements)

Notes to Consolidated Financial Statements

September 30, 1971

1. Investments

As at September 30, investments is comprised of:

	1971	1970
First Mortgage Sinking Fund Bond due Dec. 31, 2000 (1)	$11,750,000	
Mortgage receivable, due 1978	5,963,000	$14,563,000
Equities in 50% owned companies	708,000	819,000
Other	237,000	
	$18,658,000	$15,382,000

(1) The company has agreed to purchase up to $3.4 million in promissory notes from the builder-owner of One Yonge Street in addition to the amounts already loaned by way of the investment in sinking fund bonds.

2. Commitments

A. Lease commitments —

The company has leased the whole of the building at One Yonge Street for a term of 29 years at an annual rental of approximately $2.6 million and has leased back a portion to the builder-owner for the same term at an annual rental of approximately $1.2 million. In addition to the payment of the net annual rental of approximately $1.4 million the company bears the cost of all municipal taxes, maintenance and other operating costs relating to the portion of the building it occupies and the builder-owner bears the taxes and costs for the balance of the building.

B. Purchase commitments —

The company has approved programs which, when completed, will result in further additions to fixed assets totalling $6.1 million. New programs, approved since September 30, 1970, account for $4.8 million of this total and include a program for a sixth press and associated equipment at One Yonge Street. As at September 30, 1971 there were outstanding commitments of $1.7 million in connection with these programs.

3. Under the terms of an agreement (made in September 1971) the company acquired the subscription lists of the Toronto Telegram and use of its plant facilities for a two year period at a total cost of $12 million.

4. Debt

As at September 30, debt is comprised of:

	Interest rate	Due date	Amount 1971	Amount 1970
Bank loans	Prime to prime + 1%	1974	$17,635,000	
First mortgage sinking fund bonds	5½ %	1978	4,470,000(1)	$4,799,000
Sinking fund debentures			(2)	1,650,000
Other	7¼ -9½ %	1973-81	6,848,000	
			$28,953,000	$6,449,000

(1) The annual sinking fund requirements are $395,000 until May 1, 1977.

(2) During the year the company redeemed $1,650,000 of 6% debentures at a premium of $34,000.

5. Share capital

Information with respect to the authorized share capital of the company, and certain conditions relating to the rights of each class of shares, is set out below.

(i) Restrictions on transfers—

The registration of a transfer of shares may be refused if such transfer could jeopardize either the ability of the company to engage in broadcasting or its status as a Canadian newspaper.

(ii) Authorized capital—

2,467,947 Class A shares, par value $1, redeemable at par after giving effect to the stock dividend to shareholders of record on September 25, 1971 payable on October 15, 1971.
2,488,400 Class B shares, without par value
1,111,600 Class C shares, without par value
543,010 Class D shares, without par value
656,990 Common shares, without par value

(iii) Issued and outstanding—

688,530	Class B shares, without par value
1,111,600	Class C shares, without par value
542,998	Class D shares, without par value
57,002	Common shares, without par value
2,400,130	

(iv) Dividend entitlements—

(a) Class A shares are entitled to non-cumulative preferential cash dividends at the rate of 3% per annum.

(b) Class B shares are entitled to non-cumulative preferential cash dividends aggregating 22½¢ per share per annum, payable 5⅝¢ per share quarterly. After payment of the quarterly preferential dividend for any quarter on the Class B shares, dividends of up to 5⅝¢ or its equivalent per share may be paid on Class C and D shares and upon the common shares. Whenever dividends of 22½¢ or its equivalent per share have been paid in any calendar year on the Class B, C and D shares and common shares, all further dividends declared in such calendar year shall be declared on all outstanding Class B, C and D shares and common shares without preference.

(c) Provision is made whereby dividends on Class C and D shares may be made in the form of a stock dividend of redeemable shares of the company; in this event, the conditions attaching to the Class C and D shares provide that a suitable adjustment be made for taxes payable by the company with respect to such stock dividends.

(v) Conversion privileges—

(a) Class B shares may be converted at any time into Class C shares on the basis of one Class C share for each Class B share.

(b) Class C shares may be converted at any time into Class B shares on the basis of one Class B share for each Class C share.

(c) Class D shares may be converted at any time into common shares on the basis of one common share for each Class D share.

(vi) Voting privileges—

Class D shares and common shares have full voting rights under all circumstances; Class A shares have no general voting rights. Class B and C shares are entitled to general voting rights only after the company has failed to pay the quarterly dividends of 5⅝¢ per share, or its equivalent, in each of eight consecutive quarters.

(vii) Employees' Share Purchase Plan—

During the year the company introduced an Employees' Share Purchase Plan whereby employees may through payroll deductions subscribe for Class B shares at the lower of—

(a) 95% of the market value on the starting date of the plan; and,

(b) the market value at the end of the two year payment period.

200,000 unissued Class B shares have been reserved for this purpose; to date, subscriptions for 46,340 shares have been received.

6. Dividends

During the year the company declared dividends of 30¢ per share in cash or its equivalent. With respect to Class C and D shares, dividends at 85% of the cash amount were paid in the form of Class A shares, and the amount recorded in the retained earnings account includes the 15% tax paid under Section 105 of the Income Tax Act; in this connection, including the stock dividend payable on October 15, 1971, 421,108 Class A shares par value $1, were issued and redeemed at par during the year.

Under the Trust Deed relating to the company's long term debt, distributions to shareholders (as defined) are restricted to the extent that such distributions would reduce consolidated net current assets (as defined) below $3,500,000.

7. Remuneration

The expenditures for 1971 include remuneration of $359,000 (1970—$355,000) of Directors (including their compensation as officers) and senior officers.

8. Pension Plans

At September 30, 1971, the total unamortized past service costs under the company's pension plans approximate $1,600,000. These past service costs are being amortized principally over a 25 year period from the dates such costs were established.

9. Contingent liability, dismissal and severance

No provision has been made for the contingent liability of the company with respect to the dismissal and severance provisions contained in contracts, and with respect to compassionate allowances.

Consolidated Statement of Income

Year ended September 30, 1971 (with comparative figures for 1970)

	1971	1970
Revenue:		
Advertising and circulation—Daily Star	**$47,324,000**	$42,915,000
Advertising and circulation—Other	**2,848,000**	3,369,000
Printing and other	**5,379,000**	6,495,000
Investment revenue	**695,000**	309,000
Equity in net income of 50% owned companies	**14,000**	89,000
Total revenue	**56,260,000**	53,177,000
Operating costs:		
Employee costs	**22,355,000**	21,943,000
Paper and ink	**12,489,000**	12,093,000
All other	**12,175,000**	11,487,000
Depreciation	**668,000**	769,000
Total operating costs	**47,687,000**	46,292,000
Financial:		
Interest on long term debt and financing expense	**908,000**	514,000
Total operating and financial costs	**48,595,000**	46,806,000
Net income before income taxes	**7,665,000**	6,371,000
Income taxes	**3,917,000**	3,311,000
Net income before extraordinary item	**3,748,000**	3,060,000
Extraordinary item (net of income tax):		
Relocation expense, rotogravure plant	**409,000**	
Net income	**$ 3,339,000**	$ 3,060,000
Earnings per share before extraordinary item	**1.56**	1.28
Earnings per share after extraordinary item	**1.39**	1.28

(See accompanying notes to the financial statements)

Consolidated Statement of Retained Earnings

Year ended September 30, 1971 (with comparative figures for 1970)

	1971	1970
Net income for the year	**$ 3,339,000**	$ 3,060,000
Less dividends (note 6)	**720,000**	720,000
Net increase for the year	**2,619,000**	2,340,000
Retained earnings, beginning of year	**21,024,000**	18,684,000
Retained earnings, end of year	**$23,643,000**	$21,024,000

(See accompanying notes to the financial statements)

Auditors' Report to the Shareholders of Toronto Star Limited:

We have examined the consolidated balance sheet of Toronto Star Limited and its subsidiaries as at September 30, 1971 and the consolidated statements of income, retained earnings, and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at September 30, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Chartered Accountants

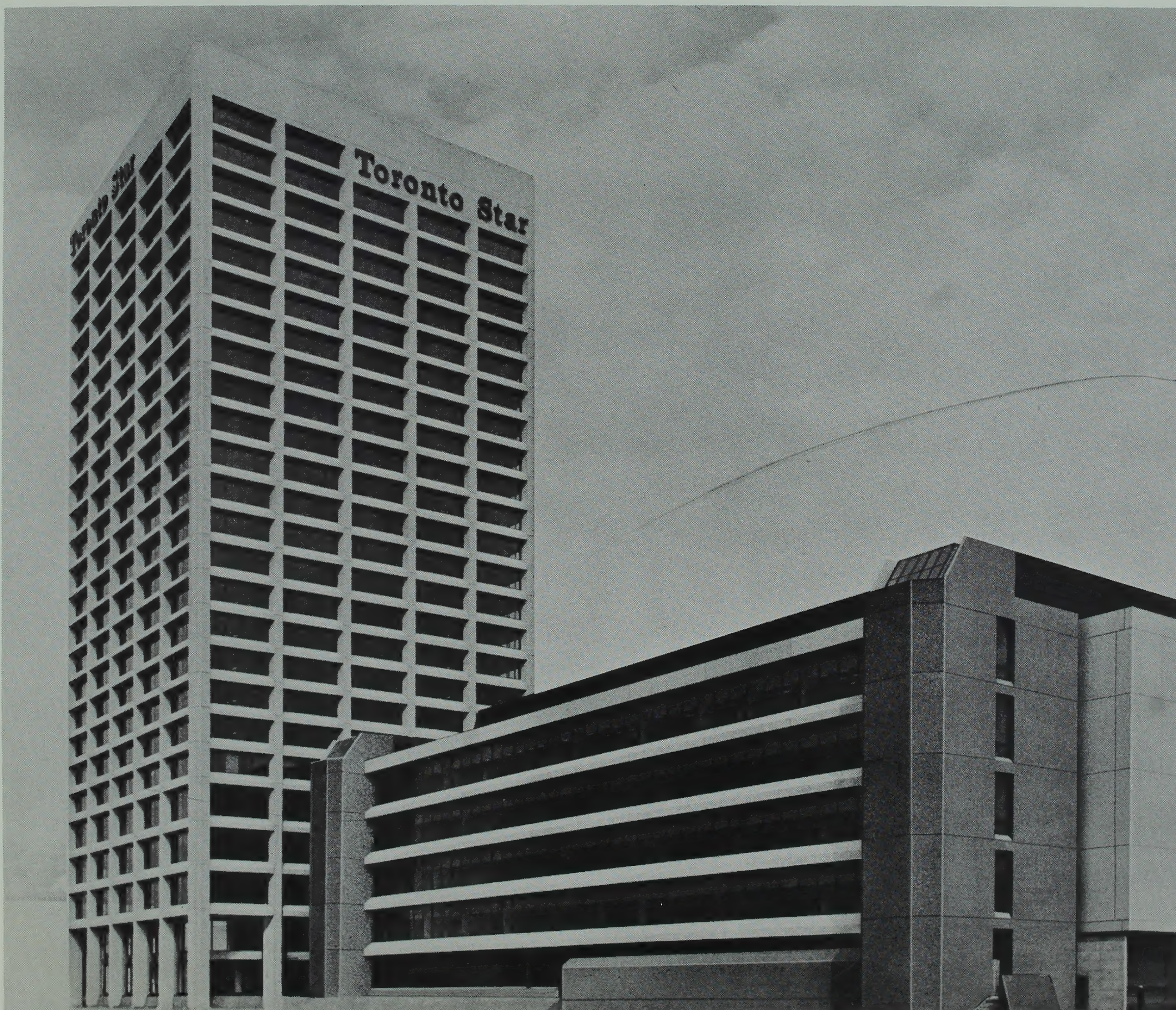
Toronto, Canada,
November 15, 1971.

Consolidated Statement of Source and Application of Funds

Year ended September 30, 1971 (with comparative figures for 1970)

	1971	1970
Source of funds:		
From operations —		
Net income for the year	**$ 3,339,000**	$3,060,000
Add charges to income which did not reduce working capital —		
Depreciation	**668,000**	769,000
Deferred income taxes	**2,449,000**	325,000
Other	**97,000**	(86,000)
Total funds from operations	**6,553,000**	4,068,000
Less dividends paid	**720,000**	720,000
Funds from operations reinvested	**5,833,000**	3,348,000
Debt funds	**24,483,000**	
Portion of mortgage currently receivable	**8,600,000**	
Employees' shares subscribed	**672,000**	
Decrease in working capital		1,021,000
Proceeds on disposal of 50% owned company		348,000
Total source of funds	**$39,588,000**	$4,717,000
Application of funds:		
Fixed assets (net)	**$12,143,000**	$ 2,541,000
Investment in first mortgage bonds	**11,750,000**	
Subscription list and plant rental commitment	**12,000,000**	
Increase in working capital	**424,000**	
Debt reduction	**1,979,000**	1,310,000
Provision for relocation expenses (net of tax) currently payable	**1,173,000**	772,000
Other	**119,000**	94,000
Total application of funds	**$39,588,000**	$4,717,000

(See accompanying notes to the financial statements)



Twenty-five storey office tower rises above the five-storey production plant at One Yonge Street.

The Star's new waterfront home at One Yonge Street which will be completed late in 1971.

Toronto Star Limited

80 KING STREET W., TORONTO 110, CANADA

Toronto Star Limited

INTERIM REPORT TO SHAREHOLDERS

FOR THE SIX MONTHS ENDED MARCH 31, 1971

TO OUR SHAREHOLDERS:

The consolidated statement of income (unaudited) for Toronto Star Limited for the six month period ended March 31, 1971 and for the corresponding period of 1970 is set forth below.

Revenue from operations of $27,184,000 is up $242,000 over the corresponding period of 1970. Net income rose $263,000 to $1,927,000. Earnings per share of 80¢ compare with 69¢ in the first six months of last year.

Daily Star circulation and circulation revenue continued to increase. Advertising revenue was also higher but linage, particularly help wanted advertising, was down because of high unemployment and the decline in business activity.

New presses and related production equipment are now being installed in the new Star building at One Yonge Street. The installation of equipment is expected to be completed by early winter, somewhat later than originally planned. Certain expenses anticipated this year may be deferred until next year depending on the date of the change-over to the new plant.

Beland Honderich

BELAND HONDERICH
President & Publisher

May 7, 1971

SUMMARY OF CONSOLIDATED INCOME FOR THE SIX MONTHS ENDED MARCH 31, 1971 and 1970

	1971	1970
Revenue from operations	$ 27,184,000	$ 26,942,000
Investment revenue	327,000	180,000
Provision for depreciation	368,000	379,000
Interest on long term debt	447,000	253,000
Provision for income taxes	2,178,000	1,789,000
Net income	1,927,000	1,664,000
Per share		
Net income	80¢	69¢
Dividends	11¼¢	11¼¢

SOURCE AND APPLICATION OF FUNDS FOR THE SIX MONTHS ENDED MARCH 31, 1971 and 1970

	1971	1970
Source of funds:		
Net income	$ 1,927,000	$ 1,664,000
Depreciation	368,000	379,000
Long term notes payable	6,634,000	–
Deferred income taxes	164,000	–
Miscellaneous	32,000	(43,000)
Employees' share purchase agreements	427,000	–
	$ 9,552,000	$ 2,000,000
Application of funds to:		
Loans to builder–owner (1 Yonge Street)	$ 3,915,000	$ –
Equities in 50% owned companies	329,000	(340,000)
Long term debt	30,000	1,250,000
Purchase of fixed assets (net)	2,237,000	1,105,000
Relocation expense net of tax	452,000	–
Dividends	270,000	270,000
	$ 7,233,000	$ 2,285,000
Increase (Decrease) in working capital	$ 2,319,000	$ (285,000)